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UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
St. Louis 2, Missouri



April 5, 1944

Administrative Memorandum

SUBJECT: Membership Fees of Consumers on Lines Acquired by
an REA Borrower

Whenever possible, consumers on acquired lines should be induced to pay the regular membership fee of the cooperative, either through application of meter deposits for this purpose or otherwise. A problem arises only when all or most of the acquired consumers refuse to make such payment. This statement of policy relates only to situations in which, in the opinion of the Applications and Loans Division, it is unlikely that all or most of the acquired consumers can be prevailed upon to make such payment.

When it is known before the sale agreement is executed that such condition exists, the agreement should provide that the cooperative is to pay the membership fees for the acquired consumers as part of the consideration of the properties in question, in addition to the cash purchase price. Such payment should then be indicated on the books of the cooperative by whatever method the Finance Division may deem appropriate in the case at hand. The board of directors of the cooperative should in all such cases adopt a resolution consenting to the payment of the membership fees of the acquired consumers by the cooperative from its own funds. The Applications and Loans Division, in preparing the feasibility study, shall indicate the total cost of the acquisition to the borrower, regardless of the source of funds. No funds are to be allotted or loaned by REA for the payment of membership fees.

The problem is somewhat aggravated where the unwillingness of most of the acquired consumers to pay membership fees becomes apparent only after the sales contract has been executed. Each such case should be referred to the Rural Electrification Division of the Office of the Solicitor for a determination as to whether the cooperative may assume the payment of such

fees notwithstanding the lack of a provision to that effect in the sale agreement. In cases where such assumption is permissible under the charter and bylaws of the cooperative involved, the necessary resolutions should be prepared by the Rural Electrification Division of the Office of the Solicitor, and appropriate book entries should then be indicated by the Finance Division, as in the preceding paragraph. In other cases, it will be necessary for the charter or bylaws of the cooperative to be amended to provide that no membership fees shall be required from applicants already receiving service from acquired lines at the time of acquisition.

The acquired consumers involved in any particular acquisition should be treated uniformly. If most of such consumers refuse to pay membership fees, and it is therefore determined that the fees will be waived, or paid by the cooperative, any membership fees which may have already been collected from consumers receiving service from the lines in question, should be returned.

The right of acquired consumers to refunds of membership fees in cases where such fees were paid by the cooperative as part of the consideration for the properties will be determined in each case by the articles and bylaws of the cooperative. No distinction should be made between original and acquired consumers with respect to refunds, unless such distinction is expressly provided for in the articles or bylaws.

/s/ HARRY SLATTERY

Administrator

